

S.K.D. *Manufacturing Co. Limited*

25th ANNUAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30th, 1967

BOARD OF DIRECTORS

J. ARTHUR DUPONT <i>resigned May 4, 1967</i>	— Partner, Craig, Forget & Co. Limited. Montreal, P.Q.
WILLIAM T. GRANT	— President, Grant & Mingay Insurance Limited. Windsor, Ontario.
GORDON J. KNIGHT	— President, S.K.D. Manufacturing Co. Limited. Amherstburg, Ontario.
WALTER L. MCGREGOR, Q.C.	— McGregor & McWilliams, Barristers & Solicitors, Windsor, Ontario.
JOHN L. STEWART, Q.C.	— Fraser, Beatty, Tucker, McIntosh & Stewart, Barristers & Solicitors, Toronto, Ontario.
JOHN C. STODGELL	— President, Walwyn, Stodgell & Co. Limited. Toronto, Ontario.
ROSS M. WILLMOTT	— President, Traders Group Limited. Toronto, Ontario.
CHARLES H. RAMIN <i>elected May 4, 1967</i>	— General Manager, Welles Corporation Limited. Windsor, Ontario.

OFFICERS

GORDON J. KNIGHT	— President
WALTER L. MCGREGOR, Q.C.	— Vice-President
D. ALLAN ROBERTS	— Secretary-Treasurer

AUDITORS

Meanwell, Goodwin & Co., Chartered Accountants, Windsor, Ontario.

BANKERS

Bank of Nova Scotia, Windsor, Ontario.

Canadian Imperial Bank of Commerce, Amherstburg, Ontario.

National Bank of Detroit, Detroit, Michigan.

TRANSFER AGENTS, REGISTRARS and TRUSTEES

First Mortgage Bonds	}	— Canada Trust, Huron & Erie, Toronto, Ontario.
6% Debentures		
General Mortgage Bonds		— Royal Trust Company, Toronto, Ontario.
First Preference Shares		— Eastern & Chartered Trust Company, Toronto, Ontario.
Second Preference Shares		— Crown Trust Company, Toronto, Ontario.
Common Shares		— Eastern & Chartered Trust Company, Toronto, Ontario.

Common Shares listed on Toronto Stock Exchange.

DIRECTORS' LETTER TO SHAREHOLDERS

Your Directors submit herewith the consolidated balance sheet and consolidated statements of profit and loss and surplus for the year ended September 30th, 1967, the most profitable in the history of the Company.

SALES AND EARNINGS

Total sales amounted to \$5,907,363, the second highest in the Company's history. Sales were lower than last year because of the reduction in sales of automobiles and trucks, and a strike in September at one of our customers' plants.

Net profit after taxes increased 11% to \$363,909 compared with \$327,791 in 1966. Net earnings per common share, after provision for dividends on preferred shares, totalled \$1.24 compared with \$1.11 in 1966.

While increased efficiency accounted for the major portion of the improvement in the 1967 profit, your Management is acutely aware of the continually increasing costs of labour, materials and services. Substantial efforts have been made, and will be intensified, to improve efficiency so that a reasonable margin of profit can be maintained.

DIVIDENDS

Dividends of \$92,917 were paid, consisting of the regular quarterly dividends on the first preference shares, regular quarterly and participating dividends on the second preference shares, and four dividends of 5¢ each on the common shares, plus an extra dividend of 5¢ per common share paid on September 1st.

FINANCIAL POSITION

Expenditures on capital equipment amounted to \$433,638, as compared with \$815,566 in 1966. Working capital at the end of the year increased to \$840,437 from \$761,445 in 1966. To assist in financing the current Plant expansion the Company arranged a second debenture loan amounting to \$1,100,000 from the Federal Government's Adjustment Assistance Board, of which \$17,726 had been advanced at September 30th.

FIXED ASSETS ADDED

Early in the year one large press was installed, and in March, work was commenced on the new \$1,600,000 expansion program, reported to you last year. After a five month delay as a result of a strike of Iron Workers in Ontario, this project is again underway.

Four large presses are scheduled to be received and installed by February 15th, 1968. The five inch spindle numerically controlled horizontal boring mill, and other machines for the new Toolroom extension are expected to be in operation by February 1, 1968.

PERSONNEL

Total employment now stands at 300, as compared with 275 last year. The Collective Agreement between the Company and the International Association of Machinists remains in force until October 23, 1968.

DIRECTORS

Early in the year Mr. J. Arthur Dupont, who had served as a Director, expressed the desire to resign from the Board for reasons of health. Mr. Charles H. Ramin, General Manager of the Welles Corporation Limited, Windsor, Ontario, was appointed to fill the vacancy on the Board. Mr. Ramin has been connected with the Truck and School Bus manufacturing industry for many years, and his broad experience in this associated industry will be of great value to the Company. It is with deep regret that your Board of Directors records the death of Mr. Dupont in August of this year. Mr. Dupont had served S.K.D. as a Director since 1962.

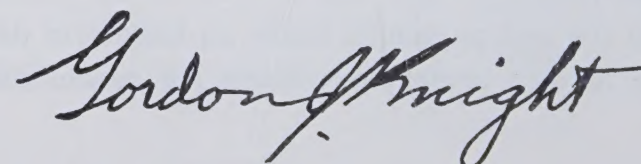
OUTLOOK

In spite of the possibility of further labour problems in the automotive industry, we anticipate a substantial increase in sales volume in 1968.

We are confident that sufficient business will be obtained to utilize fully the expanded facilities, and to ensure the continued growth of your Company.

Your Directors wish to express their deep appreciation and thanks to our employees for their loyal and dedicated efforts in behalf of the Company, to our stockholders for their support, and to our customers for their continued patronage.

Respectfully submitted on behalf of the Board of Directors.



GORDON J. KNIGHT
President.

November 9, 1967
Amherstburg, Ontario.

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended September 30, 1967

(with comparative information for 1966)

Source of Funds:	1967	1966
From operations:		
Net income	\$ 363,909	\$ 327,791
Depreciation	338,187	235,619
Deferred income taxes	78,000	111,000
	\$ 780,096	\$ 674,410
Proceeds of issue of common shares	4,968	5,835
Long-term borrowing	153,193	614,533
Book value of fixed assets sold		31,292
Sundry	1,776	3,723
	\$ 940,033	\$1,329,793
Application of Funds:		
Purchases of fixed assets	\$ 433,638	\$ 815,566
Dividends paid	92,917	92,956
Provision for and payments made on long-term debt	328,134	450,350
Purchase of own preference shares for cancellation	6,352	6,653
	\$ 861,041	\$1,365,525
Increase (decrease) in working capital	\$ 78,992	\$ (35,732)
Working capital at end of year	\$ 840,437	\$ 761,445

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

CONSOLIDATED STATEMENT OF INCOME

For the year ended September 30, 1967
(with comparative information for 1966)

	1967	1966
Sales	\$5,907,363	\$6,170,404
	_____	_____
Operating costs and expenses, other than those following	\$5,011,949	\$5,417,278
Depreciation	338,187	235,619
Interest on long-term debt	81,318	70,716
	_____	_____
	\$5,431,454	\$5,723,613
	_____	_____
Income before taxes	\$ 475,909	\$ 446,791
	_____	_____
Income taxes:		
Taxes payable for current year	\$ 34,000	\$ 8,000
Deferred income taxes	78,000	111,000
	_____	_____
	\$ 112,000	\$ 119,000
	_____	_____
Net income for the year	\$ 363,909	\$ 327,791
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CONSOLIDATED

As at September 30, 1967 (with comparative figures for 1966)

ASSETS

Current Assets:

		1967	1966
Cash		\$ 53,453	\$ 13,046
Commercial note receivable maturing October 10, 1967		100,000	
Accounts receivable		498,556	606,483
Amounts receivable as proceeds of long-term borrowing			354,332
Inventories—valued at cost or net realizable value, whichever lower:			
Raw materials	\$ 554,695		
Work in process	259,504		
Finished goods	137,127		
Supplies	17,449	968,775	864,164
Deposits and prepaid expenses		15,174	11,839
		<u>\$1,635,958</u>	<u>\$1,849,864</u>

Fixed Assets—at depreciated values determined as at September 30, 1955
by Warnock Hersey Company Ltd. plus subsequent additions at cost:

Land	\$ 44,634		
Buildings	\$ 940,120		
Less: Accumulated depreciation	263,399	676,721	
Machinery and equipment	\$3,394,476		
Less Accumulated depreciation	1,682,844	1,711,632	2,432,987
			2,337,536

Other Assets:

Unamortized bond discount	\$ 20,999		
Sinking fund cash	297	21,296	23,072

Approved on behalf of the Board:

GORDON J. KNIGHT, Director

WALTER L. MCGREGOR, Q.C., Director

\$4,090,241\$4,210,472

ERING CO. LIMITED

r the laws of the Province of Ontario)
rg, Ontario

BALANCE SHEET

omparative information for 1966)

LIABILITIES AND CAPITAL**Current Liabilities:**

Bank loans (secured by accounts receivable and inventories).....
Accounts payable and accrued expenses.....
Estimated liability for income taxes.....
Other taxes payable.....
Portion of long-term debt due within one year.....

	1967	1966
\$ 90,000	\$ 430,000	
452,555	423,370	
28,308		
21,658	16,049	
203,000	219,000	
\$ 795,521	\$1,088,419	

Long-term debt (see Note 1).....
Less: Portion due within one year, included in current liabilities.....

\$1,239,226		
203,000	\$1,036,226	\$1,211,167

Deferred income taxes (see Note 2).....

\$ 642,000	\$ 564,000
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Capital and Surplus:

Capital (see Note 3):

6% cumulative redeemable sinking fund first preference shares of \$10
each par value with 25 votes each redeemable at \$10.50 (authorized
50,000 shares less 7,085 redeemed)

Issued—23,605 shares fully paid.....

\$ 236,050	\$ 239,050
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6¼% cumulative participating second preference shares of \$20 each par
value redeemable at \$21 (authorized 8,184 shares less 1,373 redeemed)

Issued—6,811 shares fully paid.....

136,220	140,220
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Common shares without nominal or par value (authorized 450,000 shares)

Issued—273,650 shares fully paid (including 1,800 shares issued in
1967 for \$4,968 cash).....

146,496	141,528
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\$ 518,766	\$ 520,798
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Surplus:

Retained earnings

\$1,079,574

Contributed surplus

18,154

1,097,728

826,088

\$1,616,494	\$1,346,886
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\$4,090,241	\$4,210,472
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S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

CONSOLIDATED STATEMENTS OF SURPLUSFor the year ended September 30, 1967
(with comparative information for 1966)**Retained Earnings:**

Unappropriated:

	1967	1966
Net income for the year	\$ 363,909	\$ 327,791
Less: Dividends on first preference shares	14,238	14,373
Dividends on second preference shares	10,407	10,803

Net income available for common shares	\$ 339,264	\$ 302,615
Less: Dividends on common shares	68,272	67,780

Portion of net income retained	\$ 270,992	\$ 234,835
Add: Balance of unappropriated retained earnings at beginning of year	779,122	549,083
Transfer from sinking fund reserve (Note 3)	29,460	

	\$1,079,574	\$ 783,918
Less: Transfer to sinking fund reserve		4,796

Balance at end of year	\$1,079,574	\$ 779,122
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Appropriated for sinking fund reserve:

Balance at beginning of year	\$ 29,460	\$ 24,664
Add: Amount transferred from unappropriated retained earnings		4,796

	\$ 29,460	\$ 29,460
Less: Transfer to unappropriated retained earnings (Note 3)	29,460	

Balance at end of year	\$ Nil	\$ 29,460
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Contributed Surplus:

Balance at beginning of year	\$ 17,506	\$ 17,209
Add: Gain on purchase of own preference shares for cancellation	648	297

Balance at end of year	\$ 18,154	\$ 17,506
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S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1967

	1967	1966
NOTE 1: LONG-TERM DEBT:		
(a) Loans secured by chattel mortgages on machinery.....	\$	\$ 135,134
(b) Bonds and debentures:		
5¼% first mortgage sinking fund bonds due December 1, 1975 (authorized \$500,000; total issued \$500,000).....	302,500	331,500
5½% general mortgage sinking fund bonds due December 1, 1980 (authorized \$500,000; total issued \$350,000).....	232,000	236,000
6% sinking fund debentures due December 1, 1985 (closed issue; originally issued \$178,955)	111,000	113,000
6% debentures due to the Canadian Government's Adjustment Assistance Board, secured by mortgage on fixed assets owned and to be acquired, subject to prior rights of holders of mortgage bonds:		
due September 15, 1971 (closed issue; originally issued \$750,000).....	576,000	614,533
due July 15, 1976 (total amount available under agreement \$1,100,000; advances to date \$17,726)	17,726	
	<u>\$1,239,226</u>	<u>\$1,430,167</u>

Sinking fund and retirement provisions of agreements with respect to long-term debt, including borrowing arranged but not yet received as noted above, require the company to make the following aggregate amounts of principal payments in the next ten years:

1968	\$250,000	1973	\$198,000
1969	330,000	1974	201,000
1970	333,000	1975	199,000
1971	336,000	1976	137,000
1972	195,000	1977	28,000

NOTE 2: DEPRECIATION AND DEFERRED INCOME TAXES:

The company employs a method of computing depreciation which is designed to charge the cost of fixed assets to income over the useful life of the assets on a straight-line basis. Because of annual differences between depreciation calculated on this basis and allowances claimed for income tax purposes, at September 30, 1967 the undepreciated cost of depreciable fixed assets exceeded the amounts available as future deductions for tax purposes by \$1,234,500. Deferred Income Taxes account represents the tax liability expected to become due in future years when depreciation charged against income will exceed the allowances deductible for income tax purposes. Of the tax provision of \$112,000 for 1967 \$78,000 is deferred to future years.

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 1967

NOTE 3: CAPITAL

The provisions of the supplementary letters patent relating to the 6% First Preference shares require the Company periodically to set aside on its books to the credit of a sinking fund reserve account amounts to be applied to the redemption of First Preference shares. Redemption of such shares to date in the total amount of \$70,850 has exceeded requirements to the extent of \$36,608 and the balance in sinking fund reserve account has accordingly been transferred back to retained earnings.

The indentures securing the 5¼% first mortgage bonds and the 5½% general mortgage bonds provide that the company may not effect any reduction of or redeem any of its capital nor declare any dividends on any shares of its capital stock should the net current assets be less than or be reduced thereby below \$200,000.

The agreements securing the 6% debentures due in 1971 and 1976 provide that the company may not, without consent of the lender, pay dividends on its common shares in excess of \$.25 per share per annum, pay special taxes on undistributed income under the provisions of Section 105 of The Income Tax Act (Canada) or redeem preferred shares for an amount in excess of \$10,000 per year in aggregate.

NOTE 4: REMUNERATION OF DIRECTORS AND OFFICERS:

Aggregate direct remuneration to directors and "senior officers", which is defined by The Corporations Act (1967) Ontario to include the five highest paid employees, whether officers or not, amounted to \$105,722 in 1967; \$103,556 in 1966. Aggregate direct remuneration to directors and officers alone amounted to \$63,777 in 1967; \$65,361 in 1966.

NOTE 5: COMMITMENTS:

Commitments for additions to fixed assets, not reflected in the financial statements, amounted to \$955,000 as at September 30, 1967; \$198,000 at September 30, 1966. Additional acquisitions amounting to \$70,000 have been authorized by the directors. Undrawn balances of long-term borrowing arranged and available to finance these additions, not reflected in the financial statements, amounted to \$1,082,274 at September 30, 1967; \$135,467 at September 30, 1966.

NOTE 6: STOCK OPTIONS:

The company has given options to four of its officers and employees to purchase a total of 9,750 of its common shares at prices equivalent to 85% of the market value on the day that the options were accepted for filing by the Toronto Stock Exchange. In accordance with this provision 9,000 shares may be purchased at a price of \$2.76 per share and 750 shares at a price of \$2.89 per share. Shares issued to date under these agreements amount to 8,600 shares at \$2.76 per share and 450 shares at \$2.89 per share.

NOTE 7: SUBSIDIARY:

Included in the consolidated financial statements of the company are the accounts of Automated Stampings Limited, a wholly-owned subsidiary whose function is to manufacture parts for S.K.D. Manufacturing Co. Limited. Under the provisions of The Income Tax Act and The Corporations Tax Act of Ontario relating to new manufacturing businesses in designated areas, the earnings from Automated Stampings Limited are exempt from income taxes for a three year period ending September 30, 1967. As a result of the exemptions consolidated net income, after provision for income taxes, is higher than would otherwise be the case by an amount of \$125,000 in 1967 and \$104,000 in 1966.

NOTE 8: CONTINGENT LIABILITY:

The federal Department of National Revenue has issued a notice of re-assessment of income taxes for 1965 which seeks to alter the portion of consolidated income attributable to Automated Stampings Limited. The effect of this re-assessment would be to cause the company to be liable for additional taxes of \$32,900 not provided for in the financial statements. The company is objecting to the re-assessment and expects that it can successfully be resisted.

AUDITORS' REPORT TO SHAREHOLDERS

November 2, 1967.

The Shareholders,
S.K.D. Manufacturing Co. Limited,
Amherstburg, Ontario.

Dear Sirs:

We have examined the consolidated balance sheet of S.K.D. Manufacturing Co. Limited and its subsidiary company as at September 30, 1967 and the consolidated statements of income, surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

MEANWELL, GOODWIN & CO.,
Chartered Accountants,
Windsor, Ontario.

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

TEN YEAR FINANCIAL SUMMARY

INCOME AND RETAINED EARNINGS

	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958
Income before depreciation and income taxes—\$	814,096	\$ 682,410	\$ 736,057	\$ 663,289	\$ 417,575	\$282,158	\$223,111	\$169,640	\$268,884	\$200,524
Depreciation	338,187	235,619	220,721	180,725	151,210	133,074	127,961	133,976	113,173	82,938
Income taxes	112,000	119,000	184,000	240,000	121,000	60,000	46,000	19,500	85,700	63,000
Net Income	\$ 363,909	\$ 327,791	\$ 331,336	\$ 242,564	\$ 145,365	\$ 89,084	\$ 49,150	\$ 16,164	\$ 70,011	\$ 54,586
Cash Dividends paid—Preferred.....	24,645	25,176	25,200	24,785	24,024	26,465	27,788	27,788	28,095	21,251
—Common.....	68,272	67,780	53,950	26,680	—	—	—	—	—	—
Income retained	\$ 270,992	\$ 234,835	\$ 252,186	\$ 191,099	\$ 121,341	\$ 62,619	\$ 21,362	\$(11,624)	\$ 41,916	\$ 33,335
Net Income per common share.....	1.24	1.11	1.14	.82	.46	.29	.10	(.05)	.20	.16
Number of common shares outstanding.....	273,650	271,850	269,750	266,800	264,600	214,600	214,600	214,600	214,600	214,600

FINANCIAL POSITION, YEAR END

Working Capital	\$ 840,437	\$ 761,445	\$ 797,177	\$ 623,451	\$ 509,889	\$324,105	\$353,657	\$346,123	\$418,601	\$360,515
Plant and Equipment—net.....	2,432,987	2,337,536	1,788,882	1,418,506	1,303,296	877,887	873,667	883,957	847,003	894,732
Long-Term Debt and Deferred Taxes.....	1,678,226	1,775,167	1,499,984	1,245,796	1,221,262	646,655	675,055	703,755	730,955	757,605
Shareholders Equity	1,616,494	1,346,886	1,112,869	835,602	644,361	620,780	619,762	598,400	610,024	599,161

1958 Represents Nine Months only as Fiscal Year-End changed from December 31st to September 30.

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

PLANT DATA

PROPERTY

Seven Acres.

BUILDINGS

All single storey, constructed of cement blocks and metal siding, total floor area 175,000 square feet, fully protected by an automatic sprinkler system.

PUNCH PRESS DEPARTMENT

Fifty modern presses ranging from 25 to 600 ton capacity, plus two 1000 ton double action deep draw presses equipped with air cushions, coil feeds, and automation devices, capable of producing stampings up to 70" x 100" x 10" deep.

OTHER EQUIPMENT

Welders, broaches, tapping, drilling, and rivetting machines. Zinc plating, bonderizing, and painting.

TOOL ROOM EQUIPMENT

Vertical hydro-tel mills, 5" numerically controlled horizontal boring mill, lathes, grinders, heat-treating furnaces, etc.

PRINCIPAL PRODUCTS MANUFACTURED

INDIVIDUAL STAMPINGS

Radiator supports, seat pans, door pillars, stone shields, dash and cowl panels, timing chain covers, lower suspension arms, body and chassis parts.

ASSEMBLIES

Seat adjusters, hood and luggage compartment hinges, clutch and brake pedals, door locks, remote and locking controls, clutch forks.

DIES

Tools and dies weighing up to 20,000 pounds.

MACHINE WORK

Machining, hydro-tel milling, horizontal boring, grinding and jig boring.

